# MEXICO

| Table 1 | 2020 |
|---|---|
| Population, million | 128.9 |
| GDP, current US$ billion | 1075.4 |
| GDP per capita, current US$ | 8341.1 |
| International poverty rate ($1.9)[a] | 1.7 |
| Lower middle-income poverty rate ($3.2)[a] | 6.5 |
| Upper middle-income poverty rate ($5.5)[a] | 22.7 |
| Gini index[a] | 45.4 |
| School enrollment, primary (% gross)[b] | 105.0 |
| Life expectancy at birth, years[b] | 75.0 |

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) Most recent WDI value (2018).

*In 2020 Mexico experienced its largest output collapse since the 1930s, with large human and social costs due to the pandemic. The 2021 recovery depends on the vaccination campaign, U.S growth, and private investment. Yet, it may take some years for the country to attain its pre-crisis level of GDP per-capita. Conservative fiscal policies are expected to continue, but with eroded buffers and accumulated spending pressures, fiscal space will have to come from a tax reform. A stronger medium-term recovery could materialize from addressing pre-crisis constraints to growth and inclusion.*

## Key conditions and challenges

The recovery in 2021 relies on the speed of vaccination, U.S growth, and the recovery in the labor markets. However, to enable a better and sustained recovery over the medium term, the country will also need to deal with some of the most pressing pre -crisis challenges to growth and inclusion, that at the same time, are bottlenecks for job creation now. They include access to finance, lowering the regulatory burden, enabling resilient infrastructure, improving public services, and facilitating access to the labor market.

In the short term, uncertainty about the pandemic dynamics will continue to weigh on domestic demand until a large portion of the population is vaccinated. Mexico had an excellent performance in securing the contracts for the purchase of vaccines with a portfolio approach. But due to production issues, the deliveries have been somewhat protracted as it has happened in most countries.

The pandemic has also exacerbated labor market weaknesses, including high levels of informality and underemployment, low female labor force participation, and large regional disparities. The re-matching costs in the labor market are again showing to be high, and it will take time for formal jobs to recover to pre-crisis levels. While rural areas suffer from low investments in physical and human capital and high poverty rates, most of the poor live in urban areas. Access to quality education also worsened, with potential long-term impacts on human capital and productivity.

The already gradual investment recovery could be slower if the approach towards private sector involvement in some sectors, particularly energy, is not adjusted.

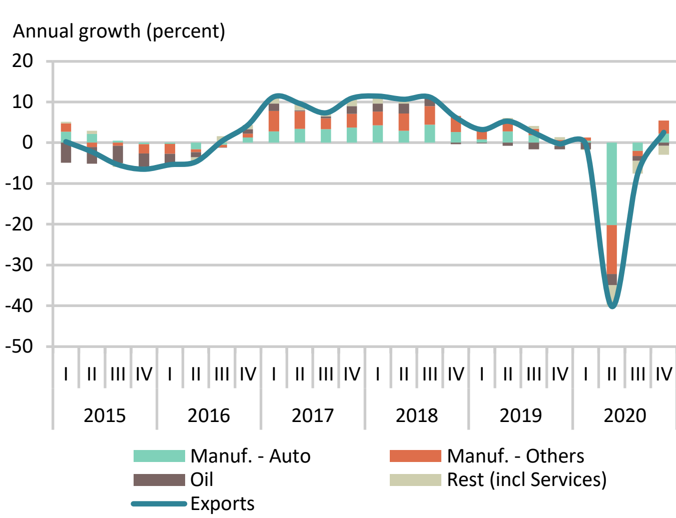
Eroded fiscal buffers, combined with a growing and delayed spending pressures (in public services and infrastructure) and the authorities' aim to safeguard debt sustainability, call for a tax reform to enable fiscal space. Additionally, to earn market credibility, a turnaround of PEMEX's financial situation will be needed.

On the upside, Mexico has the advantages of being part of the USMCA agreement, being highly open to trade, and having a strong manufacturing base well connected to the Global Value Chains (GVCs), presenting significant opportunities.

## Recent developments

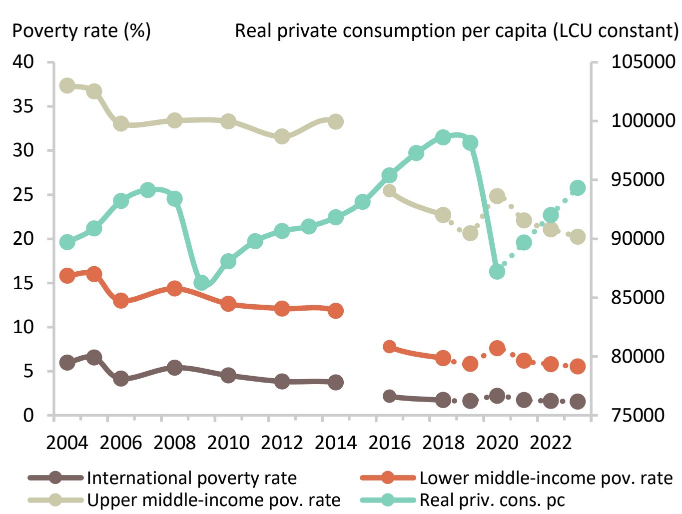
GDP contracted by 8.2 percent in 2020, with a sharp drop in the first half of 2020 as demand and supply shocks stemming from the COVID-19 pandemic had economy-wide impacts. The recovery started in the second half of 2020 as mobility restrictions eased domestically and a gradual reactivation of U.S. export demand began. By December 2020, 3 million jobs were recovered, still falling short by 3.2 million jobs (-5.8 percent) compared to December 2019. Job losses disproportionately affected informal, low-wage, younger, and female workers.

**FIGURE 1 Mexico** / Contribution to exports growth




Source: Banxico.

**FIGURE 2 Mexico** / Actual and projected poverty rates and real private consumption per capita




Source: World Bank. Notes: see Table 2.

A current account surplus of 2.5 percent of GDP was experienced in 2020, enabled by an import contraction larger than the decline in exports. Like in past crises, remittances also supported this dynamic with an increase compared to 2019, as migrants in the U.S took advantage of the peso depreciation to send more resources to their families in Mexico, among other factors.

Following a sharp depreciation over the first months of the crisis, the Mexican peso recovered terrain against the U.S. dollar, with capital accounts also registering returning inflows in the last part of 2020.

Monetary and financial policies played a critical role in supporting the economy. With inflation at 3.4 percent for 2020 and medium-term expectations within the Central Bank's band of tolerance (3 percent ± 1 percent), the cut back in policy rates continued (from 7.25 to 4.0 percent between February 2020 and February 2021). The financial sector was also supported by large liquidity and credit facilities and a regulatory forbearance program.

The fiscal response was limited (below 1% of GDP), focused on small credits to SMEs, the informal sector, and targeted social transfers to vulnerable groups. Monetary poverty is expected to have increased from 20.5 percent in 2019 to at least 24.8 percent in 2020 at the US$5.5 poverty rate. Inequality is also projected to have increased, as low-skilled workers have been the most affected.

Mexico's fiscal balance closed at -3.9 percent of GDP, driven by a moderate increase in public spending and close to constant revenues fueled by strong tax administration measures and tax settlements with large companies. Nevertheless, public debt as a share of GDP had a sizeable one-off increase due to the larger deficit, forex-denominated debt reevaluation, and the GDP drop.

# Outlook

The economy is projected to expand by 4.5 percent in 2021. In the first half of the year, this will be driven by the carry-over effects of the partial recovery at the end of 2020, a rapid reactivation of the U.S. economy fueling manufacturing exports, and the gradual rollout of the COVID-19 vaccines. In the second half of 2021, and with larger percentages of the population vaccinated, domestic consumption will start a faster recovery, while the tamed imports of late 2020 and early 2021 will also accelerate to replenish inventories. The substantial contraction in 2020 and the projected gradual recovery imply that it may take several years to attain pre-pandemic GDP per capita levels.

While the large negative output gap will help contain prices and enable room to maneuver, monetary policy will need to be mindful of the U.S policy rate developments, particularly in the second half of 2021 and into 2022.

The government is expected to maintain conservative fiscal policies, working mostly through the re-prioritization of expenditures towards health, social programs, and investment. The budget for 2021 aims to stabilize and attain a gradual decline of the public debt-to-GDP ratio over the medium term.

Continued employment and labor income growth, together with social transfers, are expected to lead to a gradual reduction in monetary poverty in 2021 (to 22.1 percent) and 2022.

The recovery is subject to downside risks. The pace of vaccination will be critical to the speed of the economic recovery. Private investment can be significatively affected if proposed reforms related to private sector involvement, particularly in the energy industry, are not amended.

**TABLE 2 Mexico** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

| | 2018 | 2019 | 2020 e | 2021 f | 2022 f | 2023 f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 2.2 | -0.1 | -8.2 | 4.5 | 3.0 | 2.5 |
| Private Consumption | 2.5 | 0.6 | -11.0 | 5.5 | 4.2 | 3.5 |
| Government Consumption | 2.9 | -1.3 | 2.1 | 1.2 | 0.8 | 0.7 |
| Gross Fixed Capital Investment | 0.9 | -4.6 | -18.6 | 10.5 | 5.3 | 5.0 |
| Exports, Goods and Services | 6.0 | 1.5 | -8.2 | 6.4 | 4.9 | 4.1 |
| Imports, Goods and Services | 6.4 | -0.7 | -15.1 | 10.0 | 7.5 | 6.5 |
| **Real GDP growth, at constant factor prices** | 2.1 | -0.1 | -8.1 | 4.5 | 3.0 | 2.5 |
| Agriculture | 2.3 | 0.3 | 1.9 | 2.5 | 2.8 | 3.0 |
| Industry | 0.5 | -1.7 | -10.0 | 5.8 | 3.3 | 2.6 |
| Services | 2.9 | 0.7 | -7.7 | 4.0 | 2.9 | 2.4 |
| **Inflation (Consumer Price Index)** | 4.9 | 3.6 | 3.4 | 3.7 | 3.6 | 3.5 |
| **Current Account Balance (% of GDP)** | -2.1 | -0.3 | 2.5 | 0.6 | -0.5 | -1.4 |
| **Net Foreign Direct Investment (% of GDP)** | 2.1 | 1.8 | 2.1 | 1.9 | 2.0 | 2.1 |
| **Fiscal Balance (% of GDP)** | -2.2 | -2.3 | -3.9 | -3.3 | -3.2 | -3.1 |
| **Debt (% of GDP)** | 44.9 | 44.5 | 52.3 | 51.4 | 51.2 | 51.1 |
| **Primary Balance (% of GDP)** | 0.4 | 0.4 | -0.9 | -0.5 | -0.3 | -0.2 |
| **International poverty rate ($1.9 in 2011 PPP)**[a,b] | 1.7 | 1.6 | 2.2 | 1.8 | 1.6 | 1.6 |
| **Lower middle-income poverty rate ($3.2 in 2011 PPP)**[a,b] | 6.5 | 5.8 | 7.6 | 6.2 | 5.8 | 5.5 |
| **Upper middle-income poverty rate ($5.5 in 2011 PPP)**[a,b] | 22.7 | 20.7 | 24.8 | 22.1 | 21.1 | 20.2 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on SEDLAC harmonization, using 2018-ENIGHNS.Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Based on microsimulation model for 2019-2021. For 2022-2023, assumes neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita.